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FACT SHEET: HEALTH

2008 Strategic Health Issues & Decisions

HEALTH CARE COST DRIVERS

CalPERS is the nation's third largest purchaser of health care behind the federal government and General Motors. In 2008, we will spend more than \$5 billion on behalf of 1.2 million members.

A decade ago, CalPERS led the managed care revolution with four years of premium declines. But market dynamics have changed. The cost spiral has resumed, and prices in the U.S. health care market are rising faster than ever. All this is happening at a time when 76 million baby boomers are approaching age 65 – many with costly chronic conditions.¹

Below are the key drivers of our rising health care costs:

- Older members – since 2004, CalPERS Medicare population has increased by 19%; for every year someone ages, their health costs increase by 3-4%²
- Increase in chronic conditions – top 3 member conditions (muscle/bone disorders, cardiovascular disease, cancer/benign tumors) cost nearly \$1.6B in 2006³
- Soaring hospital costs – our largest medical cost component for 4 years running
- Huge variations in hospital costs, reimbursement and treatment patterns
- Improved medical technology – every new medicine brought to market in America is said to cost about \$1.2 billion⁴
- National health care costs – rising at more than twice the rate of inflation

CALPERS TAKES ACTION TO STEM RISING COSTS

As large as CalPERS is, we can't change the health care marketplace in California. We may not have stopped the cost increases, but we have made progress toward moderating them, including:

- Removed the highest cost hospitals from the CalPERS Blue Shield network – saved more than \$122M thru 2007
- Consolidated our Health Maintenance Organization (HMO) offering and added two new lower-cost plans: Blue Shield NetValue, an HMO plan, and PERS Select, a Preferred Provider Organization (PPO) plan – projected savings of \$144M
- Increased accountability and rewarded cost-efficient physicians
- Eliminated preventive care co-pays
- Developed long-term, strategic, transparent partnerships with health plans
- Enhanced disease management and wellness programs
- Pushed for public hospital quality data (CHART – California Hospital Assessment and Reporting Taskforce)
- Encouraged use of generic and mail order drugs

WE ARE NEGOTIATING AGGRESSIVELY TO CONTAIN COSTS & ENHANCE VALUE

In 2008, CalPERS had an overall premium increase of only 6.3 percent – the lowest health benefit rate increase in a decade. This year, we are continuing to look for ways to tackle the key drivers of health care costs. This includes negotiating aggressively with our plans to get the most value for our health care dollar.

Some of the initiatives we're working on:

- Hospital Value Initiative (HVI) – getting a handle on actual hospital costs by service so we can identify and direct our members to the highest value hospitals
- Disease Management – developing a unified disease management program to establish consistency and improve performance across all health plans
- Single Administrator – considering a single entity to manage all health plans, which could include negotiating rates and paying claims
- NetValue HMO & PERS Select PPO – getting more doctors to qualify for these high-performance networks
- Pharmacy carve-out – researching and identifying the potential for cost-savings opportunities

- Rate negotiations – negotiating aggressively even though cost trends nationwide are not in anyone’s favor

EFFORTS TO PREVENT BEING A VICTIM OF COSTS

CalPERS members and employers don’t have to stand by and be victims in this health care cost spiral. There are a number of ways you can help us keep costs down:

Members:

- Make healthy lifestyle choices
- Get regular preventive care
- Use generics vs. brand name drugs
- Use mail order vs. retail pharmacies
- Use urgent care centers vs. emergency rooms (as appropriate)
- Visit CHART Web site to compare hospital quality (www.CalHospitalCompare.org)
- Review “Cost Efficiency at Hospital Facilities in California” report to identify the highest value hospitals in your area

Employers:

- Partner with health plans to develop Workplace Wellness programs and reward employees who participate
- Conduct on-site health fairs
- Review “Cost Efficiency at Hospital Facilities in California” report – reach-out and engage high-cost hospitals in your community

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¹ “Aging Baby Boomers May Overwhelm Health Care System,” Timothy Krin, Family Practice News, June 1, 2005

² Blue Shield of California, September 26, 2006

³ CalPERS Health Care Decision Support System, February 20, 2008

⁴ “New drug price tag: \$1.2 billion,” Penni Crabtree, San Diego Union-Tribune, November 10, 2008